

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE ADJUSTMENT OF WESTERN	)	CASE NO.
KENTUCKY GAS COMPANY	)	90-013

O R D E R

IT IS ORDERED that Western Kentucky Gas Company ("Western") shall file the original and 12 copies of the following information with the Commission by June 13, 1990, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. In response to Item 2 of the Commission's Order dated April 24, 1990, Western states that as a result of its purchase by Atmos "TAE was forced to realize its deferred tax liability immediately and, in effect, was required to report and or pay its taxes to the government."

a. Was it Western or TAE that was required to "report and or pay its taxes" immediately?

b. Was this payment of taxes a requirement of the Internal Revenue Code or was it only one of several options available to Western, Atmos and TAE?

c. If such treatment is required by law, state the section of the Internal Revenue Code or other law by which such transactions are governed.

d. If there were other options available, what were those options and were any considered?

2. In response to Items 1 and 19 of the Commission's Order dated April 24, 1990, Western provided a balance sheet at November 30, 1987, pre and post acquisition. Using the information on that balance sheet, calculate the rate base for Western prior to the acquisition and immediately after the acquisition using the format used in Western's last rate case, Case No. 9556. Reconcile and provide a narrative explanation of any differences in the pre and post acquisition rate bases.

3. In response to Item 12 of the Commission's Order dated April 24, 1990, quantify the benefits to the Kentucky ratepayers of the San Francisco Builders' Conference.

4. In Case No. 9059,<sup>1</sup> the Commission established criteria that utilities must meet in order to meet their burden of proof to recover an investment above net book value. According to the Commission Order, utilities must prove:

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<sup>1</sup> Case No. 9059, An Adjustment of the Rates of Delta Natural Gas Co., Inc., Order dated September 11, 1985, pages 3 and 4.

a. The purchase price was established upon arm's length negotiations.

b. The investment will not adversely impact the overall costs and rates of the existing and any new customers.

c. Operational economies can be achieved through the acquisition.

d. The purchase price of utility and non-utility property can be clearly identified.

e. The purchase will result in overall benefits in the financial and service aspects of the utility's operations.

For each item a. - e. above, provide information that will show that the purchase of Western by Atmos Energy Corporation meets the criteria established in Case No. 9059.

5. See response to question 18 of Western's response to Commission Order dated April 24, 1990.

a. Provide information concerning line no. 21 location 143 Tax/Budget.

b. Provide information concerning line 31, location 178 Corporation Services and why Western was allocated \$329,417.

6. Western's response to question 18 of the Commission's Order dated April 24, 1990 seems to indicate that Western had \$4,673,492 of corporate expenses allocated to it during the test period. However, Ms. Lovell's testimony indicates that Western's allocation was only \$332,400 the amount allocated by TAE. Please clarify.

7. On the post acquisition balance sheet at November 30, 1987, the total equity of Western increased by \$39,655,852.

Explain the reason for the increase, and the specific components of the additional capital.

8. The following questions relate specifically to the management audit recommendations listed below:

III - R7

VIII - R3

IV - R1

VIII - R8

IV - R3

VIII - R18

V - R3

IX - R6

V - R4

X - R1

VI - R2

X - R2

VII - R1

XI - R1

VII - R7

Western should provide the following information for each specific recommendation noted:

a. Describe the actions which Western has taken to implement the recommendations of the recently completed management audit.

b. Identify all costs and benefits included in the test period from Western's efforts to implement the recommendations of the recently completed management audit. What costs and benefits from these efforts are amounts anticipated annually over the next three years?

c. Explain in detail how any of the costs and benefits described in the previous two questions have been taken into consideration in the proposed revenue requirements in this case.

9. Where significant activities have been undertaken to complete the recommendations, provide the information requested in

1(a) through 1(c) above for other management audit recommendations.

10. According to the implementation plan proposed in response to management audit recommendation IV-R3, Western was to "document the efficiencies created by the corporate level assuming the responsibilities for certain functions of Western" by completing an analysis of "organizations and efficiencies achieved as of September 30, 1989" by March 31, 1990. Provide the analysis.

11. Provide all costs and benefits associated with the decision (discussed in Recommendation X-R2 of the management audit) to transfer the Western Service Bureau and Minicomputer to the Western Computer Center manager upon retirement. Have test-period operations been adjusted for the transfer?

12. In response to Item 18 of the Commission's Order dated April 24, 1990, provide the following information:

a. What type of oversight does Western have over the type and amounts of expenses that are allocated to Western?

b. Does Western's management have the authority to question or veto an allocation?

c. Do the other divisions of Atmos have their own corporate officers?

d. Since Western has its own President, etc., why is it not a duplication of services to allocate expenses associated with Atmos's officers?

e. Provide a schedule comparable to the one provided in Item 18 of the Commission's April 24, 1990 Order for the 12 months preceding the test period in this case. The schedule need show only the allocation dollars for each subsidiary of Atmos.

13. In response to Item 18 of the Commission's Order dated April 24, 1990 Western referenced a response to Item 62 of the AG data request. In that response a schedule is attached that shows \$5,313,233 in credits to certain expenses. Provide an explanation of each credit that makes up the total \$5,313,233.

14. The response to Item No. 31 of the Commission's Order of April 24, 1990 relates to a possible test-year customer growth adjustment. The response indicates that usage per customer has been declining and that this decline has offset sales increases resulting from customer growth.

a. Per Exhibit 5 of the application, actual test-year sales were 21.7 million Mcf and weather-normalized sales were 22.1 million Mcf. Per Western's GCA filing in Case No. 9556-N for the 12 months ended February 28, 1990, per books sales were 23.4 million Mcf and weather-normalized sales were 24.6 million Mcf. Provide a detailed explanation for the approximate 2 million Mcf increase from the test year to the 12 months ended February 28, 1990.

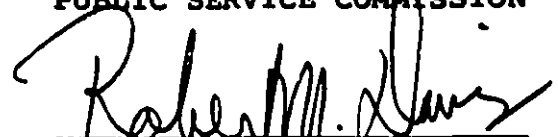
b. In the response to Item 31, 98.5 Mcf is given as the weather-normalized average annual use per residential customer for the test year. Based on the sales levels reported in Case No. 9556-N, provide the weather-normalized annual use per customer for the 12 months ended February 28, 1990.

15. Respond to Mr. Eisdorfer's contention, expressed on pages 14-18 of his testimony, that the average and peak methodology for the allocation to customer classes of Western's

pipeline demand and transmission plant costs penalizes efficient consumption since under that methodology the higher a class's load factor, the greater the assignment of these costs to that class.

Done at Frankfort, Kentucky, this 30th day of May, 1990.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director